

Message Text

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C O R R E C T E D C O P Y FOR MRN (00532 VICE 052)

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SUBJ: THE AUSTRIAN ECONOMY AT YEAR-END: PERFORMANCE AND PROSPECTS

REF: VIENNA'S '77 A-10; '76 A-398; '77 A-30

1. SUMMARY. (A) THE PAUSE IN ECONOMIC RECOVERY THAT GRIPPED THE MAJOR INDUSTRIAL NATIONS EARLIER IN 1976 IS BEING FELT, SOMEWHAT BELATEDLY, IN AUSTRIA. SO FAR THE PRINCIPAL MANIFESTATIONS HAVE BEEN IN BLEATS OF BUSINESSMEN AND SOME GOVERNMENT OFFICIALS, AND SLIGHTLY REVISED FORECASTS FOR 1977. WHEN FOURTH QUARTER 1976 FIGURES ARE IN, HOWEVER, WE EXPECT THAT THEY WILL CONFIRM THE SLOWDOWN. (B) DESPITE THE WEAKENING IN RECOVERY LATE IN THE YEAR, 1976 HAS BEEN A
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RELATIVELY GOOD YEAR, AND 1977 PROMISES ROUGHLY THE SAME. 1976 GNP STILL IS EXPECTED TO GROW AT LEAST 4PERCENT; AND INFLATION AT 7.3PERCENT (A FINAL FIGURE) IMPROVED ON 1975'S 8.4PERCENT. IMPORTS AND EXPORTS (SO IMPORTANT FOR AUSTRIA) ADVANCED HANDSOMELY--AS DID THE TRADE DEFICIT. DESPITE RECENT DOWNWARD REVISIONS IN 1977 FORECASTS, REAL GNP GROWTH IS PROJECTED AT 4 PERCENT WITH A FURTHER DECREASE IN INFLATION,

AND NEARLY FULL EMPLOYMENT. (C) AT THIS JUNCTURE OUR PRINCIPAL--AND INCREASING--CONCERN IS GOA EXCHANGE RATE POLICY THE "HARD SCHILLING POLICY" HAS EASED SOME INFLATIONARY PRESSURES AND HAS ASSUMED A VERY PROMINENT PLACE IN KREISKY'S PROGRAM. HOWEVER, SINCE AUSTRIA'S PRICE INDEX HAS MOVED SUBSTANTIALLY ABOVE THAT IN WEST GERMANY AND SWITZERLAND (THE PRINCIPAL DETERMINANTS OF THE SCHILLING'S VALUE) AUSTRIAN GOODS AND SERVICES HAVE BECOME RELATIVELY MORE EXPENSIVE. A 75PERCENT INCREASE IN AUSTRIA'S TRADE DEFICIT, AND 25PERCENT DROP IN RESERVES (THROUGH NOVEMBER) ARE VIVID INDICATIONS. THE SENSITIVITY OF THE AUSTRIAN ECONOMY TO WHAT HAPPENS IN THE MAJOR OECD COUNTRIES (ESPECIALLY THE USA, FRG AND JAPAN) HAS BEEN DEMONSTRATED. INTERNALLY, IT WILL BE INCREASINGLY IMPORTANT TO CONTROL INFLATION THROUGH COORDINATED USE OF MONETARY AND FISCAL AS WELL AS EXCHANGE RATE POLICY IF MORE SERIOUS CONSEQUENCES ARE TO BE AVERTED. END SUMMARY.

2. NEW ECONOMIC FORECAST RELEASED BY WIFO ON DECEMBER 20 SHOWED LESS OPTIMISTIC FIGURES FOR ALL MAJOR INDICATORS THAN THOSE IN PRELIMINARY 1977 FORECAST OF LAST SEPTEMBER. ESTIMATED REAL GNP GROWTH RATE FOR 1977 WAS LOWERED FROM 5 TO 4 PER CENT. DROP IN GROWTH RATE EXPECTED TO SHOW UP IN FOURTH QUARTER 1976 STATISTICS AND CONTINUE THROUGH MID 1977. (FOR LATEST AVAILABLE STATISTICS ON MAJOR ECONOMIC INDICATORS SEE VIENNA A-10 AND A-30.) WIFO NOTED THAT DOWNWARD REVISION WAS DUE TO POORER EXPORT PROSPECTS AND LESS OPTIMISTIC OUTLOOK OF UNCLASSIFIED

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BOTH CONSUMERS AND BUSINESSMEN, PARTICULARLY LATTER'S INVESTMENT INTENTIONS. PROJECTED 1977 INCREASE IN GROSS INVESTMENT WAS LOWERED FROM 8.5 TO 6.5 PER CENT, WHICH IS LARGEST CHANGE IN NEW FORECAST. THESE VIEWS, IN TURN, REFLECT EXPECTATION THAT AUSTRIA IS BEGINNING TO FEEL IMPACT OF THE PAUSE IN ECONOMIC RECOVERY WHICH MAJOR MARKET ECONOMIES EXPERIENCED AFTER FIRST QUARTER 1976. FORECAST INCLUDES EXPECTED IMPACT OF AN INCREASE IN PETROLEUM PRICES OF UP TO 10 PER CENT.

3. LATEST FORD INSTITUTE FORECAST ALSO REVISED DOWNWARD. IT NOW FORESEES 4.3 PER CENT GNP GROWTH IN 1977, BUT WOULD REDUCE THIS TO 2.9 PER CENT IF OECD'S PESSIMISTIC OUTLOOK FOR DEVELOPMENT OF FOREIGN TRADE SHOULD PROVE CORRECT. STATISTICAL SUMMARY OF BOTH WIFO AND FORD INSTITUTE FORECASTS BEING POUCHED.

4. BUSINESSMEN HERE HAD CHARACTERIZED SEPTEMBER FORECAST, AND GOA PROJECTIONS BASED ON IT, AS OVERLY

OPTIMISTIC. BUSINESS LEADERS, PARTICULARLY FEDERAL CHAMBER PRESIDENT SALLINGER, HAVE LAID MUCH OF BLAME FOR THEIR INCREASED CAUTION ON WHAT THEY CONSIDER EXCESSIVE GOVERNMENT TAX AND FEE BURDEN. BUSINESSMEN ALSO HAVE CALLED FOR GREATER GOVERNMENT ASSISTANCE FOR EXPORTS STRAINING UNDER HARD SCHILLING POLICY.

5. SENIOR GOVERNMENT OFFICIALS, INCLUDING CHANCELLOR KREISKY AND TRADEMINISTER STARIBACHER, HAVE STATED THAT WHILE THE ECONOMY WILL CONTINUE UP IN 1977, IT WILL NOT BE QUITE AS BUOYANT AS ORIGINALLY EXPECTED. THUS FAR, HOWEVER, THERE ARE, REPORTEDLY, NO PLANS TO RELEASE THIS YEAR'S \$350 MILLION CONTINGENCY BUDGET TO BOOST THE ECONOMY. STARIBACHER ALSO HAS CHARACTERIZED THE OBSOLESCE STRUCTURE OF SEVERAL KEY AUSTRIAN INDUSTRIES, INCLUDING STEEL, GLASS, PAPER AND TEXTILES, AS A PRIMARY ECONOMIC PROBLEM.
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6. COMMENT. NOTWITHSTANDING LESS OPTIMISTIC FORECASTS, 1977 STILL PROMISES TO BE ANOTHER GOOD YEAR FOR AUSTRIA ECONOMICALLY. IN FACT, IN TERMS OF AVERAGES, 1977 IS EXPECTED TO BE ALMOST A CARBON COPY OF 1976. AS IN 1976, THE AUSTRIAN ECONOMY SHOULD ACHIEVE A GROWTH RATE WHICH COMPARES FAVORABLY WITH MOST OECD COUNTRIES. NEARLY FULL EMPLOYMENT WILL LIKELY BE MAINTAINED, ALTHOUGH CREATION OF SUFFICIENT NEW JOBS IS A GROWING PROBLEM. INFLATION PROBABLY WILL DECELERATE SLIGHTLY.

7. IN FINAL ANALYSIS, AUSTRIAN ECONOMIC PERFORMANCE IN 1977 WILL DEPEND HEAVILY ON EVENTS IN MAJOR WESTERN NATIONS AND JAPAN. GOA THEREFORE IS EXPECTED TO WELCOME ANNOUNCED PLANS FOR ADDITIONAL FEDERAL STIMULUS TO THE U.S. ECONOMY. BUCHANAN

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